Microfinance Financial Services and Livelihoods of Poor the Birds Eye View with Reference to Uganda

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ABSTRACT

The Microfinance institutions financial services aim to improve livelihoods of the marginalized populations. The Covid-19 pandemic containment measures limited the access of MFIs to the marginalized groups. This paper sets out to investigate the relationship between Microfinance financial services and the clients' livelihood during the Covid-19 pandemic in Uganda. A total of 53 employees dealing in microloans in the central and eastern region of the country randomly selected participated in the study. A five-scale Likert self-administered questionnaire was used to collect the data, which was analysed using both descriptive and inferential statistics. The study findings revealed that the loan services (0.90; $p \prec 0.05$), savings services (0.86; $p \prec 0.05$) and money transfer services (0.83; $p \prec 0.05$) significantly positively contribute to livelihoods. Collectively, the predictor variables explain 84% of the variation in clients' livelihood during the Covid-19 pandemic. It is recommended that MFIs integrate the Covid-19 risk in their risk management plans, the use of digital platforms be explored to improve client virtual interactions accompanied by the necessary regulatory framework

Key words: Microfinance, financial services, clients, livelihood, Covid-19

JEL codes: G; G2; G21

INTRODUCTION

In sub-Sahara Africa, between 45-50% of the population live below the poverty line (Ayompe, Steven J Davis, & Benis , 2020). Uganda is among the sub-Saharan countries with a population of over 44 million people of which more than 15% live below the national poverty line (Kasaija, 2020). The poverty level among the population has been aggravated by the onset of Covid-19 mainly as the pandemic period led to significant income losses among the poor. The country had made some progress in reducing the poverty levels since 1989 from 94.90% to 89.50% in 2012. This rate has been increasing thereafter, and by 2019, the poverty rate had reached 91.10 percent[1]. The Covid-19 pandemic widened the gap between the rich and the poor with the poor being pushed into extreme levels of poverty. The women with limited access to land were among the most affected. In terms of location, the rural population tends to be more vulnerable to high levels of extreme poverty. The Uganda Finance Ministry reported a rise in the general poverty by over 18% during the first half of 2021. This was attributed to the loss of income due to the Covid-19 containment measures. The restrictions on movement and the closure of all non-essential business meant depriving the population of their sources of income.

Microfinance institutions (MFIs) are variously referred to in the literature as socially oriented organizations that extend microloans to the financially excluded segments of the population (Zheng & Zhang, 2021; Abrams, 2021; Mattsson, Stefan, & Ingemar Kåreholt, 2017; Dhakal & Nepal, 2016). Khandakar & Constantine (2004) provides a contrasting definition when they refer to microfinance as profit-making financial ventures that intend to serve the rural poor. The contrast in the conceptualization of microfinance is essential in understanding the role of microfinance in uplifting the livelihoods of the vulnerable groups. Whereas the

former group of authors focus on the social objective of microfinance, the latter are more focussed on the economic objective. The proponents of the economic objective advocate for serving the poor with the aspect of sustainability in mind. These are supported by most the current literature that defines microfinance as the provision of finance to the active poor (Nathan, Banga, & Mukungu, 2004). The terms commercialization of microfinance and profitable banking with the poor have thus become very popular among microfinance borrowers.

The literature when contributing to the role of microfinance stress the aspect of the double bottom line. The double bottom line refers to the dual objective of serving the poor while at the same time remain financially sustainable. The dual objective is cited as the major distinguishing feature between a microfinance institution and a commercial bank (Zheng & Zhang, 2021; Sinha, 2006; Bauwin, 2019; Brau & Gary, 2004). The dual objective also helps us to contrast between the two terms often used interchangeably in the microfinance literature. These are the concept of microcredit that suits more the social objective of microfinance as it targets the very poor. The provision of microcredit endears the MFIs to a variety of potential donors including but not limited to private equity firms, charitable organizations, pension funds and insurance companies. Such donors view MFIs as viable partners in the uplifting of the wellbeing of the poor and marginalized populations (Zheng & Zhang, 2021). On the contrary, the term microfinance seem to be inclined to the economic objectives as it targets the active poor. The overlapping feature between the two is the desire to the serve populations that are generally excluded from the formal financial markets.

The Covid-19 pandemic disrupted the economic activities globally and the poor were severely affected as they became prone to income shocks. The pandemic caused negative shocks to people's income due to loss of employment and fluctuation in their wages. The contraction of the economy during the pandemic meant the contraction of all other economic activities especially at the level of the household. The microfinance sector that serves the vulnerable groups was affected. Khandakar & Constantine (2004) relate the success of the microfinance industry to the general improvement in the economy. The restrictions on movement and social distancing rules increased the financial stress of the poor as they suffered income losses from the denial of access to their places of work. The ability of the poor to access credit from the MFIs was limited due to restrictions on movement. The social distancing rules rendered the group lending methodology highly ineffective during the pandemic (World Development Report, 2022). The MFIs were bound to face increasing liquidity problems due to non-re-payments. The costs of loan administration were bound to increase (Abrams, 2021).

Being founded on the principle of serving the very poor, though at a profit (Khandakar & Constantine , 2004), puts the MFIs at a great financial risk that has been worsened by the advent of Covid-19 pandemic (Bank of Uganda, 2020). During Covid-19 pandemic, some MFIs closed shop while others restricted their operations. This aggravated the already undesirable situation of loss of employment and income, as now the lack of access to credit was added. Microcredit increases people's income by providing them with seed capital. This may have worsened the poverty levels of the population that was already vulnerable and poor.

This study has been conducted at time when Covid-19 that struck the world and was declared world pandemic in March 2019 is becoming more of a new normal (Abrams, 2021; Nakimuli & Kizza, 2021). Covid-19 has disrupted the economic activities and the livelihood of many around the world (Kinga, Koryński, & Pytkowska, 2020; Sangwan, Nayak, Sangwan, & Pradhan, 2021; Malik, et al., 2020; Bank of Uganda, 2020). The literature suggests that much as Covid-19 has been associated with reduced financial efficiency of MFIs, it has led to improved social efficiency of the MFIs (Zheng & Zhang, 2021). The social efficiency indicator improved as the demand for credit increased. It is imperative to note that the business of lending has several risk, and lending to the poor at the time of economic turbulence is more risky. MFIs to hedge against such risk has often charged high interest rates that often defeats its social objective (Ali Al-Shami, Majid, Narulizwa, & Mohd, 2014; Brau & Gary, 2004). We try to explore the contribution of microfinance financial services to the livelihoods of the poor during the pandemic period. We operationalize livelihood in terms of the marginalized groups ability to access basic needs, such as, housing, education, health, water, clothing and feeding.

In Uganda, the Bank of Uganda lowered the interest rate during the pandemic with the hope that the financial institutions would follow suit. This expectation never materialized as the average interest rates remained as

high as 19.3 percent in 2020 (Kasaija, 2020). The charging of high interest rates on the poor is echoed in (Bateman, 2021; Nathan, Banga, & Mukungu, 2004). Some authors argue that charging such exorbitant interest rates to the poor is deliberate to keep the poor in abject poverty and stay in business for long. The argument is that once the poor upgrade to the well to do class, the MFIs will have no business. It is also important to explore whether the microloans that MFIs offer to the poor moreover at high interest are of any impact in transforming livelihoods. During the pandemic, the poor were prone to more poverty due to loss of income arising out of the lock down measures. This specifically included the restrictions on movement and the ban on social gatherings. This study intends to contribute towards the understanding whether the improvement in social efficiency is translating into improved livelihood of the poor and vulnerable groups. Specifically, this study explores the relationship between MFIs loan, savings and money transfer services help transform livelihoods of the poor during the Covid-19 pandemic in Uganda.

LITERATURE REVIEW

MFIs are known to offer a wide range of financial services to the poor including but not limited to: saving products, loan products, insurance services, micro-leasing, deposits, payment (money transfers) and repayment services (Dhakal & Nepal, 2016; Ali Al-Shami, Majid, Narulizwa, & Mohd, 2014; Murad & Idewele, 2017; Kamiza & Kizza, 2019; Brau & Gary, 2004; Malik, et al., 2020; Majid, et al., 2015). The effectiveness of microfinance to lead the poor out of poverty has raised controversies among researchers. Some have associated microfinance with positive, others negative, while others have found no impact caused by microfinance in relation to poverty alleviation (Majid, et al., 2015). According to (Busingye & Kazooba, 2018), despite the focus of microfinance on the vulnerable especially the female population, their marginalization is still significant. Zheng & Zhang, 2021; Dhakal & Nepal, 2016 attribute this limited impact of microfinance on the poor to the high interest rates charged on monies advanced.

In a study conducted in Nigeria by Adefiranye & Jenkwe, 2024, on the impact of Cooperative Financing on Survivability and Sustainability of Small and Medium Enterprises (SMEs) in the Federal Capital Territory (FCT), it was revealed that cooperative financing is a highly effective method for addressing the financial needs of small and medium-sized enterprises (SMEs). The MFIs in Uganda more or less work on the cooperative financing model. The effectiveness of MFIs is dependent on factors such as, the ability to innovate new product and service offerings, as well as good client relationship management. Other factors include the ability to integrate IT in the MFI processes, proper monitoring and transparent systems. The effectiveness of all these factors in attaining the objectives of the MFI is largely dependent on sound risk management framework (Akhter, 2020). In their operations especially in the business of lending to the poor, MFIs are prone to operational, credit, liquidity, reputational and interest rate risks. The Covid-19 pandemic tested the innovative capacities of MFIs globally, with the use of IT enabling the continued provision of services to the poor in the largely restricted environments.

More often than not, MFIs accompany the financial services such as loans, with the non-financial services as a necessary mechanism to attain their double bottom line (Khandakar & Constantine , 2004). The non-financial services have been variously referred to in the literature as the 'Microcredit plus' (Chong, 2021; Froelich, Kemper, Poppe, Breda, & Richter, 2015; Foundation Grameen Credit Agricole, 2021). Microcredit plus activities includes training in financial literacy, awareness campaigns, business enterprise development and advisory services. Where these services are offered, a positive association with client improved loan repayment and improved living conditions has been found (Froelich, Kemper, Poppe, Breda, & Richter, 2015; Majid, et al., 2015). The effectiveness of financial access in uplifting the livelihood of the poor is more felt only if this is accompanied by the appropriate business training and financial literacy (TCX staff, 2018).

The loans provided to the poor could be used to set up business enterprises to boost their earning and get out of poverty. The establishment of small and micro enterprises in Uganda is limited by the lack of start-up capital (Uganda Bureau of Statistics, 2021). Bateman (2021) provides a better concept of microfinance loans when he refers to them as "tiny loans". As to whether these tiny loans may have a significant effect on the livelihoods of the poor, is the question worth investigating. The literature often times uses the terms microcredit and microfinance interchangeably. Microfinance has become a widely used as a tool to provide credit to the financially excluded populations from the formal banking sector, especially in rural areas. During the Covid-

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19, reaching out to the poor was very difficult due to the Covid-19 containment measures. Most MFIs restricted credit and concentrated on collection of due loan repayments. However, given a general disruption in the economic activities, loan recovery became very hard forcing MFIs to consider other methodologies such as debt rescheduling (Bank of Uganda, 2020). Unfortunately, even in cases of debt rescheduling or deferral of principal payment, monthly interest rates payment remained high to the disadvantage of the vulnerable groups (Malik, et al., 2020). The ability of MFIs to extend liquidity to deserving clients was limited due to the rise in the percentage of poor loan portfolios and the increased operating costs (Bank of Uganda, 2020).

The group lending methodology that MFIs substitute for collateral became highly ineffective (Zheng & Zhang, 2021; Abrams, 2021; Swain & Garikipat, 2019). MFIs use group lending methodology as a cushion against risks associated with moral hazard and adverse selection (Jing, et al., 2021). The group lending methodology is faulted for failure to screen out unproductive borrowers. The existence of non-productive borrowers among the group may negatively impact on the gains of the whole group. Where group liability is enforced, this may restrict the desire for the poor from seeking loans from the MFIs. The literature provides a gradual paradigm shift where MFIs are substituting group-lending methodologies with incentive based lending (Jing, et al., 2021). For a loan to bear transformative effects on the client, it should be appropriately designed to suit the characteristics of the intended beneficiaries. Such loan should be clear on the interest payable, loan repayment period, time responsive, provide for a reasonable grace period and where possible accompanied with the needed financial literacy training (Mattsson, Stefan, & Ingemar Kåreholt, 2017; Ali Al-Shami, Majid, Narulizwa, & Mohd, 2014).

Research shows that over 56.6% of the population in Uganda still access funding from informal financial services (Uganda Bureau of Statistics, 2021, p. 235). During the pandemic, access to microfinance became increasingly difficult due to restricted movements. This meant that the poor who needed microfinance were at a disadvantage. The adoption of digital services in microfinance though recommended at the time (Bank of Uganda, 2020), may have had little impact given that there was not enough time to educate the poor about their availability and use.

Whereas most microfinance institutions are prohibited from performing the saving function, there is an increasing number of microfinance institutions that require potential beneficiaries to save or deposit with them at least 30% of the targeted loan amount. In fact, we can argue that most MFIs disguise client savings as initial deposits necessary to qualify a client to loan access. The saving services offered by MFIs include acceptance of deposits, insurance, mandatory and voluntary savings. Where an MFI is allowed to accept savings from clients, benefits such as easy access to stable low cost finance and reduced risk associated with lending to the poor are enjoyed (Ali Al-Shami, Majid, Narulizwa, & Mohd, 2014). Savings services are considered an effective way to contribute to people's resilience to shocks especially in sub-Saharan Africa (Foundation Grameen Credit Agricole, 2021). The deplorable state however is that most of the population in Uganda (50.6%) still save their money informally (at home), with a very small population of 0.6% saving with a microfinance institution (Uganda Bureau of Statistics, 2021, p. 231). The pandemic restrictions deprived the poor of their sources of income, and consequently limited their ability to save (Bank of Uganda, 2020). According to (TCX staff, 2018), the savings improve the resilience of the household to possible income shocks, and thereby play a significant role in poverty alleviation efforts. Savings however may have a negative impact on household income as money is withdrawn from immediate circulation (Majid, et al., 2015).

The general conclusion we can draw from the impact evaluations done on the effectiveness of microfinance to better the livelihood of the poor is mixed. Some studies indicate microfinance impacting as low as less than 10% of the beneficiaries, and others showing little impact. This may not be surprising given that microfinance is provided in minute amounts and increasingly at high rates of interest. While reviewing literature on the impact of microfinance on poverty reduction, (Bateman, 2021), interfaced with a study by Straus, 2010 that reported negative effects of microfinance on consumption. The impact on education, women empowerment and business creation was found to be insignificant. The limitation in the creation of business enterprises was attributed to the use of microfinance mainly to smoothen consumption. Even where microenterprises have been set up using the borrowed funds, the failure rate among such establishments is very high. The literature suggests that up to 50% of microenterprises fail within one year of their establishment.

Money transfers are a form of payment of services that greatly contribute to poverty alleviation (TCX staff, 2018). Financial institutions like commercial banks may collaborate with telecommunication companies like MTN and Airtel to offer mobile money services to their clientele. Traditionally, MFIs transact business based largely on face-to-face interactions between the MFI and the beneficiaries (Dhakal & Nepal, 2016). The Covid-19 pandemic standard operating procedures made this quite difficult necessitating MFIs to re-think their operation methods. Much as some MFIs have been conducting money transfers such as the Western Union service, most small MFIs are not able to offer this service. The use of money transfer services do promote financial access to the poor and is enabled by MFIs adopting digital financial services (Agur, Peria, & Rocho, 2020). The common digital financial services (DFS) in the financial sector include mobile payments, mobile insurance, mobile savings, mobile credit and mobile banking (Alliance for Financial Inclusion., 2018). The provision of digital financial services (DFS) has transformed from the basic function of money transfer to accommodate other services such as enabling credit, savings, remittances and insurance services (Alliance for Financial Inclusion., 2018).

The mobile phone is a key tool in accessing these services and the availability of stable internet is essential in enabling the effectiveness of these digital operations. The use of digital financial services in a developing country like Uganda is limited by the inadequate digital infrastructure, high levels of financial illiteracy among the vulnerable groups and the lack of a sound regulatory framework. There are also risks associated with the loss of data, mistaken transactions and internet connectivity. There are reported cases of increased fraud due to data hacking where use of digital financial services is applied. The training in cyber security is therefore of high importance.

Microfinance targets the poor and the marginalized segments of the population especially the women and the poor in the rural areas (Zheng & Zhang, 2021; Foundation Grameen Credit Agricole, 2021). The microloans provided to the poor and marginalized groups are intended to lift the poor out of poverty especially if the extension of credit is complemented with the necessary advisory services. The study conducted in Malaysia by (Majid, et al., 2015) revealed that the provision of advisory services like entrepreneurship training and business development significantly impact on the efficiency of the credit extended to the poor. The microfinance beneficiaries make use of the advice to create more employment opportunities and meet the basic needs of the household (Busingye & Kazooba, 2018; Mattsson, Stefan, & Ingemar Kåreholt, 2017; Ali Al-Shami, Majid, Narulizwa, & Mohd, 2014). Whereas microfinance may not pull people out of poverty, it does influence their occupational choices, such as preference for self-employment. The ability of microfinance to transform livelihoods (Jing, et al., 2021) is said to be negligible, especially when measured on social indicators such as health and education.

The beneficiaries of microfinance mainly use it for two purposes: business expansion and or consumption (Alliance for Financial Inclusion., 2018). The use of microfinance for consumption purposes is used for purposes such as loans for household improvement. There is a general agreement in the literature that access to microfinance is positively associated with improved household welfare, improved household incomes, economic empowerment, happy families, respect from the community, shared family responsibility and decreased vulnerability of the poor (Zheng & Zhang, 2021; Mattsson, Stefan, & Ingemar Kåreholt, 2017; Dhakal & Nepal, 2016; Bauwin, 2019; Kinga, Koryński, & Pytkowska, 2020; Akhter, 2020). Several researchers however dispute this. In their report, (TCX staff, 2018) affirm the several studies that indicate the absence or insignificant impact of credit and poverty reduction. The (Alliance for Financial Inclusion., 2018) report attest the existence of large segments of un served vulnerable groups in Africa despite the availability of MFIs.

Poverty is defined variously as the lack of access to financial resources necessary to enable a person acquire the basic needs of life. These needs include education, shelter, feeding, health and clothing. This definition implies that the lack of access to finance is a leading cause of poverty. The promoters of microfinance believe in the ability of microfinance to lift the poor out of poverty. This is however subject to criticism by other authors, whose argument is that the lack of microfinance is not responsible for the poor conditions of living among the poor. The use of microfinance to lift the poor out of poverty is thus misdirected unless the real causes of poverty are identified and appropriately managed. According to (Khandakar & Constantine , 2004); the main causes of poverty among the poor are beyond the confines of microfinance. Accordingly, reference is

made to the deep-rooted social, political and cultural factors that reinforce the undesirable state of poverty among the poor. It is argued that the failure of microfinance to lift the poor out of poverty lies in the social construction of society. This view suggests that as long as the promoters of microfinance survive on the existence of poor populations, more likely, they will endeavour to perpetuate poverty in society. The argument is that other factors other than the lack of microfinance are responsible for the prevailing poverty in the third world.

As MFIs have evolved from the original mission of providing microcredit to engage fully in the provision of microfinance, their ability to appeal to the plight of the vulnerable groups hangs in balance. The provision of microfinance has an economic connotation of dealing with the poor with an intention of making profits. The term relating the provision of microfinance to the active poor seem to contradict the original intention of MFIs. Yet this need not cause worries, as this was the expectation. The provision of microcredit was never intended to keep the poor perpetually in the state of poverty. The provision of microcredit would lead to transformed lives, and the initially served poor populations would graduate to qualify for microfinance. In the end, those qualifying for microfinance could become part of the wider banking population. We have seen this evolution happening in some situations. In Uganda for example, BRAC, which is part of the original Grameen Model of microfinance, has been transformed into a fully-fledged banking institution. If this was informed by evidence from data, it would be an indication that MFIs are on track of transforming livelihoods. This needs further research before one passes any judgement. The available data seem to suggest that poverty levels in Uganda have been increasing for some time and worsened by the onset of the Covid-19 pandemic[1]

The MFI sector in Uganda has changed focus to strive for sustainability. It is argued that MFIs in a bid to meet their costs of operation and remain sustainable are charge high interest rates to the poor clientele! Bearing in mind that then poor are people with limited access to incomes, probing into this phenomenon is worth undertaking. The question we try to raise is, are the MFIs contributing to the reduction of poverty among the served populations? Or are MFIs actions merely perpetuating poverty among the poor. The statistics show that the majority of the poor in Uganda live in the rural areas yet most of the MFIs are urban based. It is factual that in Uganda most of the population survives on agriculture, which is synonymous with the rural areas. At the same time, the active poor seem to be easily accessed from the urban areas (Nathan, Banga, & Mukungu, 2004). This raises key concerns of a structural nature. If we are to use microfinance to lift the poor out of poverty, should the focus be on the active poor who are mainly resident in the urban areas? By focussing on the active poor in the urban areas, what mechanisms can we use to achieve society transformation where the majority of the poor are in rural areas?

The formal banking sector in the developing countries is viewed as a contributor to cyclical poverty among the poor due to its hesitancy to lend to the poor, and where it does, it does so at exorbitant interest rates. It was this realization that proponents for microfinance found their rationale (Khandakar & Constantine , 2004). Surprisingly, both commercial banks and microfinance institutions are united by the ultimate motive of making profits. Microfinance institutions need profits to remain financially sustainable in the long run as donors pull out their funding. The Grameen bank model is an epitome of success stories of how microfinance can indeed help lift the poor out of poverty while at the same time achieve sustainability. The recorded loan recovery rates of up to 95% is testimony of the possibility of doing credit business with the poor at a profit.

According to (Khandakar & Constantine , 2004), most proponents of microfinance focus on the demand side and ignore the supply motive of the microfinance providers. This supply motive have a great influence on the operations of the MFI and the extent to which the provision of microfinance can help lift the poor out of poverty. MFI players with a focus on the current business continuity are less likely to work towards getting the majority out of poverty as this may keep them out of business. Kinga, Koryński, & Pytkowska (2020) voices the need to balance the original mission of microfinance (social objective) with the new thinking of sustainability (economic objective). The proper integration of the two is essential if microfinance is to remain as a vital tool needed to lift the poor out of poverty.

The investigation in the role of MFIs in reducing poverty levels thus become pertinent. The high concentration of MFIs in urban areas is another issue worth of attention as it may limit the ideal of outreach. For microfinance to make a worthwhile impact there should be a realization in the percentage increase in number

of vulnerable groups accessing credit from MFIs. Microfinance help minimize poverty levels among the poor by enabling access to finance to create opportunities for self-employment as well as smoothen consumption. Feeding is essential for health livelihoods and increased labour productivity. Productive labour is better positioned to earn more income and minimize on the general poverty levels.

To be impactful, microfinance needs to be delivered in the most cost effective way that appeals to the characteristics of the poor (Sinha, 2006). The interest rate charged on loan should be affordable and possibly comparable to the market interest rate. The beneficiaries from the microloans ought to be prioritise their use to set up income generating activities as opposed to more consumption. The microloan advanced should take into consideration the client's capacity to repay the money borrowed, the loan repayment terms should be clearly explained to the client, offered at an affordable rate of interest and with flexible repayment terms.

METHODOLOGY

Sampling and Data sources

The study was conducted in the months of August 2021 to January 2022 when the economy was not fully open due to the Covid-19 pandemic restrictions. A total of 53 employees of various MFIs in the central and eastern region of the country participated in the study. The study was randomly selected and based on the willingness of the employee to fill the questionnaire that captures items covering the various items of the study constructs. The target population consisted of employees that directly deal in loan management, such as, relationship officers and credit managers. The majority of the respondents 33(62%) had worked with the respective microfinance institution for a period between one to ten years and could thus easily provide the required information on how the financial services of the microfinance institutions were enabling transforming livelihoods of their clients with the Covid-19 pandemic in context. 31(58%) of the respondents were males while 22(42%) were females. The majority of the respondents were graduates 34(64%).

The respondents were requested to fill the questionnaire that had items measured on a five type Likert scale where 1 represented disagreement with the item under consideration and 5 showed agreement with the item under consideration. The reliability of the study instrument was established using Pearson's product –moment correlation. The collinearity tolerance (1/VIF) for all predictor variables was greater than 0.1(10%) with the corresponding variable inflation factor (VIF) for all variables being not less than 1 which falls within the recommended interval of 1 and 10 indicating the nonexistence of multicollinearity in our data set. The difference between the R squared and the R adjusted square was estimated at 0.0071a further indication of the reliability of our instrument since this small difference between R squared and the R adjusted square points to model fit. All the estimations were done using Stata 12 software. The descriptive statistics were generated in form of frequency tables; correlation tests, multiple regression and parameter estimates were estimated. The theoretical model that guided the study is given by:

Transformed livelihood (Y) $=\alpha + \beta_1\chi_1+\beta_2\chi_2+\beta_3\chi_3+\varepsilon$ where α is the intercept β_{1-3} are coefficients, χ_1 are loan services χ_2 are savings services, χ_3 are money transfers while ε is the error term.

RESULTS

Descriptive statistics

The overall mean of the loan services was 2.42 with a corresponding standard deviation of 0.85. This mean value falls within the disagree range implying that the Covid-19 pandemic had had an adverse effect on the extension of credit. Despite this, there was a general agreement that in cases where the loans are approved, they could be disbursed within two days 4.23(1.03). There was also agreement that loan products are designed according to client needs 3.83(1.09). All the remaining items on the measures of loan services displayed a level of disagreement. The focus on group loans 2.45(0.99), number of loan applicants being on the increase 2.36 (0.98), the volume of loan disbursement increasing 1.62(0.77), the offer of loans in form of working equipment 1.25(0.62) and the reduction of interest on credit 1.21(0.49).

The ability of MFIs to mobilize savings during the Covid-19 pandemic was also greatly affected with the

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overall mean of 1.58 and the corresponding standard deviation of 0.82. All the items used to measure saving mobilization were below the mean of 2.5 except the item on the requirements for opening a savings account being friendly that registered a mean of 2.58 (1.22) slightly towards the neutral position. Other items posted the following means and standard deviations respectively. Pre- saving is a requirement to access a loan 1.70(0.97), existence of a minimum amount to open a savings account 1.53(0.89), education of clients about the need to save 1.49(0.93), the increase in the size of MFI membership 1.43(0.60), the offer of various savings products 1.40 (0.77), the offer of savings services to clients 1.28(0.66) and have new savings accounts being opened up 1.19 (0.52).

With regard to MFIs money transfer services during the Covid-19 pandemic, the findings revealed an overall mean of 2.34 and a corresponding standard deviation of 1.03. The individual items revealed that clients are able to make payments using money transfers 3.40(1.21), clients are aware of the existing money transfer services 2.75(1.21), the existence of mobile money facilities 2.75(1.24), the existence of Western Union services 1.58(0.91) and the availability of money gram services 1.21(0.57).

As to whether the services were positively impacting on the livelihoods of poor, the findings revealed the overall mean of 2.99 and the corresponding standard deviation of 1.01. The individual items revealed a neutral response towards the improvement in clients savings 3.43 (1.14), more women accessing loans 3.32(0.70), clients reporting growth in their assets 3.13(1.09), improvement in clients feeding 3.06(0.84), improved access to health facilities 3.06(0.95), and clients self-esteem 3.00(1.04). Other items measures also depicted a very close move towards the neutrality position with a mean greater than 2.5 for all items studied. The clients' income has improved 2.96(1.18), clients housing has improved 2.87(0.86), more employment opportunities have been created 2.75(1.04), clients are able to educate their children 2.75(1.11) and the youth access to loans has improved 2.58(1.22). It is imperative to note that efforts to lead the poor out of poverty should lead to improved access to the basic needs.

Inferential statistics

To test the relationship between the independent and dependent variables, we run correlation tests and the results are presented in Table 1.

Correlation tests

Table 1: Correlation matrix

	Loan services	**Savings services**	**Money transfer services**	**Improved livelihood**
Loan services	1			
Savings services	0.8682***	1		
Money transfer services	0.8165***	0.8145***	1	
Improved livelihood	0.9000***	0.8577***	0.8296***	1
***significant at 5%				

H1: There is no relationship between microfinance loan services and clients' livelihood during the Covid-19 pandemic

The results indicate the existence of a very strong significant positive relationship between microfinance loan services and the clients' livelihood during the Covid-19 pandemic ($0.90; p \prec 0.05$). The null hypothesis is rejected.

H2: There is no relationship between microfinance savings services and clients' livelihood during the Covid-19 pandemic

The results indicate the existence of a very strong significant positive relationship between microfinance savings services and the clients' livelihood during the Covid-19 pandemic (0.86; $p \prec 0.05$). The null hypothesis is rejected.

H3: There is no relationship between microfinance money transfer services and clients' livelihood during the Covid-19 pandemic

The results indicate the existence of a very strong significant positive relationship between microfinance savings services and the clients' livelihood during the Covid-19 pandemic (0.83; $p \prec 0.05$). The null hypothesis is rejected.

Parameter estimates

Table 2: Regression test (parameter estimates)

Variable	**Coef.**	**Std. Err.**	**t-value**	**P>t**	**[95% Conf.**	**Interval]**
Loan services	1.02	0.20	5.06	0	0.62	1.42
Savings services	0.54	0.26	2.07	0.042	0.02	1.07
Money transfers	0.53	0.22	2.38	0.02	0.09	0.98
Intercept	2.01	1.42	1.42	0.161	-0.82	4.83

The estimated equation from Table 2 is given as $(Y) = 2.01 + 1.02X_1 + 0.54X_2 + 0.53X_3$. These findings imply that a unit increase in money transfers improves the clients' livelihood by 53% while a unit increase in savings services improves the clients' livelihood by 54%.

Model summary

Table 3: Regression model summary

Source	**SS**	**Df**	**MS**		
Model	12179.98	3	4059.99	F(3,65)	(Pr › F)=0.0000
Residual	2200.22	65	33.85		
Total	14380.20	68	211.47		
R-squared=0.8470			Adj R-squared=0.8399		
Root MSE =5.81					
F(3,65)=119.94					

Source: Field survey, 2021. Values based on author's calculations using STATA 12

The regression test was performed to determine the contribution of the independent variables on the response variable, and help to model the relationship between the independent variables and the response variable. Collectively, the predictor variables explain 84% of the variation in clients' livelihood during the Covid-19

pandemic (Adjusted R-squared 0.84; p<0.00). The difference between the R –squared and the adjusted R-squared is only 0.0071 meaning that the model fit is very good. The F-test is also significant which implies that our regression equation fits well the data set used in the analysis.

Multicollinearity Test

Table 4: Testing for multicollinearity of Independent variables

Variable	**VIF**	**1/VIF**
Loan services	4.75	0.210747
Savings services	4.7	0.212777
Money transfers	3.47	0.28796
Mean VIF	4.31	

The model was tested for multicollinearity using the variable inflation factor. The collinearity tolerance (1/VIF) for all predictor variables was greater than 0.1(10%) with the corresponding variable inflation factor (VIF) equal to 4.31 for all variables which falls within the recommended interval of 1 and 10 indicating the non-existence of multicollinearity in our data set.

DISCUSSION

The paper sought to establish the relationship between microfinance financial services and clients livelihood during the Covid-19 pandemic in Uganda. The financial services studied explain 84 percent of the variation in clients' livelihood during the Covid-19 pandemic.

Loan services is significantly positively associated with the savings services (0.87; $p \prec 0.05$), money transfer services (0.82; $p \prec 0.05$), and clients' livelihood (0.90; $p \prec 0.05$). The savings services is significantly positively associated with the money transfer services (0.81; $p \prec 0.05$) and clients' livelihood (0.86; $p \prec 0.05$). The money transfer services have a significant positive relationship with clients' livelihood (0.83; $p \prec 0.05$). The findings are in agreement with earlier research studies that associate microfinance with positive improvements in household welfare, household incomes and economic empowerment (Zheng & Zhang, 2021; Kinga, Koryński, & Pytkowska, 2020; Murad & Idewele, 2017).

The results from the descriptive statistics revealed the adverse effect of Covid -19 pandemic microfinance loan services. During Covid-19 pandemic, the number of loan applicants and loan disbursements reduced. The rate of savings mobilization also reduced. This finding collates research findings by (Zheng & Zhang, 2021; Sangwan, Nayak, Sangwan, & Pradhan, 2021) where Covid-19 is associated with reduced MFI financial efficiency. The findings on the increased concern of clients on the maintenance of the interest rate charged on loans echoes earlier findings by (Malik, et al., 2020). The findings that despite the ongoing periods of crisis, MFIs are still provided timely loans support (Zheng & Zhang, 2021) the social efficiency goal of MFIs during the pandemic.

The MFIs ability to raise savings was reduced due to the disruption of the economic activities of the poor that were categorized in the class of non-essential services. The Covid-19 containment measures through the social distancing rules and policies restricting movement rendered the group lending methodology commonly used by the MFIs ineffective. The finding that group-lending methodologies were not effective during the Covid-19 pandemic echoes earlier studies (Abrams, 2021; Zheng & Zhang, 2021; Kizza, 2021; Sangwan, Nayak, Sangwan, & Pradhan, 2021)

The findings revealed an adverse effect of Covid-19 on money transfer services. This is not surprising and

echoes (Sangwan, Nayak, Sangwan, & Pradhan, 2021) views that the restriction on economic activities negatively affects the peoples' employment and earnings. Without a reliable source of income, we cannot expect an increase in money transfers from either the poor or those that they depend on. This may impact negatively on the livelihoods, as people are rendered incapable of accessing income necessary to meet their basic needs.

Overall, the findings revealed that despite the crisis caused by the Covid-19 pandemic, the financial services offered by MFIs had an impact on the clients' livelihood. This finding is in support of earlier research studies (Mattsson, Stefan, & Ingemar Kåreholt, 2017; Ali Al-Shami, Majid, Narulizwa, & Mohd, 2014; Zheng & Zhang, 2021). The neutral finding in regard with women access to loans may be used to explain (Mattsson, Stefan, & Ingemar Kåreholt, 2017) scepticism of women realization of the full benefits of microcredit in certain cultural contexts.

CONCLUSION

The financial services provided by MFIs play a significant role in improving livelihoods even crisis times. The loan services have a significant bearing on the savings services provided by the MFIs. The savings contribute to the low cost of capital that MFIs can utilize to extended credit to the vulnerable and marginalized groups. The low cost microloans enable MFI clients to access basic needs like health, feeding and shelter, which contributes, to improvement in their livelihoods. The low cost loans are easy to repay which may reduce the default rates associated with high cost lending. Policy makers should enable MFIs to integrate possibilities of pandemics disruptions of economic activities in their risk management frameworks and credit rating systems.

In crisis situations, the demand for funding/credit services by the poor enable the MFIs to fulfil their social objective of reaching out to the poor thereby contributing towards the clients' livelihood. MFIs however have to come up with measures that enable proper client assessment and loan management, as well as, guidelines that enable the offering of the accompanying non-financial services. The role of MFIs non-financial services to the poor is underscored by several authors like (Chong, 2021). MFIs should come up with more innovative methods such as digitalization to enable continued financial access to the marginalized even where face-to-face interactions and social gatherings are not possible.

The savings services have a positive influence on money transfers, and money transfers positively contribute to the clients' livelihood. During Covid-19, entire economies were closed down and economic activities disrupted. This slowed down the level of remittances thereby adversely affecting the level of MFIs money transfers. With inadequate money transfers, the means of survival for the marginalized that were dependent on the same became limited which variously affected their livelihoods.

The Covid-19 pandemic rendered the most popular substitute for collateral security used by MFIs, which is social security largely ineffective. The group methodology was rendered ineffective by restrictions on movement and a ban on social gatherings. The overreliance on face-to-face interactions used by most MFIs became ineffective. Despite all this, MFIs seem to have maintained their focus on serving the marginalized groups though at an increasing level of financial risk. Further studies should be conducted on how MFIs could effectively harness digital tools and platforms to effectively reach out to the target groups that are largely ICT illiterate and may not possess the necessary digital tools as well.

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